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## BUDGET MAKING FOR SMALL CITIES

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Even the most ordinary city has a budget in the sense that there is a periodic authorization to spend public money. However, the new city budget is more—it is a careful estimate of revenues accompanied by a definite program for spending them. In progressive municipalities such a program is only determined upon accurate information of the efficiency of each city activity, the necessity of its continuance, its cost, and its desirability as compared with the other work, that the community may be best served at the least cost. It is desirable to interest the citizens and officials of smaller communities in some methods of budget making, which, while assisting in administration, are not so red tape-ish as to prevent their use by those with neither time nor patience for the technicalities of municipal finance.

### *Who Should Make the Budget*

The first essential to successful budget making is the preparation of the estimates by the administrative officers responsible for the carrying out of the work program. In the city manager form of government, this task naturally falls to the manager, assisted by the financial officer; in the federal plan, where the mayor appoints all departmental heads and is responsible for their proper conduct, the estimating of the city's revenues and their apportionment among the several departments belongs to this head of the government. However, in the average American city, there is unfortunately such decentralization—so many public officers responsible to no one but the electorate—that there is no central authority whose duty it is to correlate the financial requests of the divisions of the corporation. Consequently, the real preparation of a financial program is left unfortunately to a committee of the city council, who are unfamiliar with the relative departmental needs, frequently have political axes to grind, and who are not actually or popularly re-

sponsible for the conduct of government. This committee of council solicits their own statement of anticipated revenues from the city auditor and receives the miscellaneous estimates of needs which have been prepared without regard to available revenues. Out of this material they have the impossible task of creating a homogeneous program which will meet public needs.

Where such lack of centralization exists, it is desirable that the mayor of the municipality—who in the mind of the public is largely responsible for its administration—should bring together the representatives of the independent elements supported from public funds. Before this body he should present the current resources of the city and ask that they be properly apportioned. Here, by a committee of the whole, public needs could be correlated, absolute essentials approved, any surplus distributed, and the entire estimate, with supporting data, be prepared for presentation to the council. With such methods the chances of one activity of the city being over-emphasized at the expense of others are lessened, and the council is relieved of interfering with the detail conduct of the departments. The preparation of budget estimates by a responsible committee outside of the city council, and the approval or disapproval of these estimates by the council itself, would tend to place the responsibility for the government where it actually belongs, removing in some measure the burden of ineffectiveness, inefficiency, and shifting responsibility which cities now bear.

It has been suggested that estimates so prepared should be subject only to revision downward by the council. However, such a proposition is at present illegal in American cities, and draws its support from other than American municipal experience, if New York City be excepted. As a means of further reducing legislative interference, it is perhaps desirable in federal plan cities, particularly as applied to salary schedules. Where the budget committee is a creature of the council, as in the city manager plan, the scheme is not only impractical, but theoretically unsound.

#### *How the Budget Should be Made*

1. *Revenues:* An essential requirement for budget making is an accurate estimate of municipal revenues, and a resolution that appropriations shall be limited to such estimate. When the budget is prepared by a council committee, it is sometimes felt a hardship

to reduce the estimates of the various city departments to within the estimated current receipts. Frequently the entire requests are appropriated for, irrespective of the money which will come into the city treasury, leaving the burden of cutting the city's suit to fit the cloth to the city auditor. In such instances, if the auditor is not aggressive, departments will incur liabilities far in excess of the city's ability to pay, with resulting operating deficits.

The distinction of revenues from receipts as a proper basis for apportioning city expenditures has created a movement for the placing of city accounting upon a revenue and expense rather than upon a receipt and expenditure basis. Large cities, unhampered by state legislation, may logically base appropriations upon revenues accruing, issuing short time loans when such revenues are not actually paid into the city treasury during the fiscal period covered. The restrictions on such loans by state authority as well as by local opinion preclude the use of revenues in place of receipts as a basis of budget making in the average American municipality. However, in appropriating receipts, proper allowance should be made for unusual payments which are not normal revenues. For example, licenses may be paid into the treasury during the closing days of the year, although not actually due until the beginning of the new fiscal period. Such funds should be held inviolate for the period for which they are intended.

The estimate of income should accord with a definite classification which is followed continuously by the accounting officers of the municipality. Only such a classification, conscientiously adhered to, will permit the fiscal officers to determine with reasonable confidence the accuracy of the estimate. The variation in sources of revenues makes it impractical to present a suggested classification here, but one which has been given much thought and which has proven serviceable may be found in the budget of Dayton, Ohio.

After a conservative estimate of operating revenues has been made, and the budget committee has definitely resolved that the city appropriation shall be kept within this estimate of current resources, there follows the more detailed task of preparing the estimates of the several departments. This is the real basis of budget making, and upon its being done correctly, depends the success of a budget, either in a small or large city. If the estimates are presented on miscellaneous sheets of paper, salaries sometimes

grouped by themselves, three or four of the larger expenses segregated, and the remainder lumped as miscellaneous expense, and these sheets are used as the basis for the appropriations of the following year, it is a budget as typical of the average American town as it is typical of what a budget ought not to be. If, however, some little care and thought are given to the problem, these estimates will offer to the budget committee a statement of proven departmental needs, and to the public, a comprehensive idea of the work which the city proposes to do during the coming fiscal period.

2. *Appropriations by Activities:* It is essential that the value of city activities should be weighed one against the other, and to do this properly, these activities must be the units of appropriation. In smaller cities, while the desirability of appropriating to activities or functions is important, it is not as imperative as in larger communities. In the small city, the bureau or division usually represents the smallest unit to which it is feasible to appropriate. As cities become larger, it is necessary to break these bureaus into the various functions which they perform; as, for example, under the bureau of street repair, we have the activities of repairing brick streets, repairing macadam streets, repairing asphalt streets, etc. In the small cities, it is neither necessary nor expedient to have these separations in the budget itself. The budget commission, however, should go carefully over their departmental organizations, making such functional separations as are advisable.

3. *Classification by Character of Expenditure:* In order that any change in the assets of the city may be properly reflected in the city's balance sheet, and that the actual operating expenses may be known, it is necessary to separate estimates and appropriations into "Expense" and "Capital Outlay." In some larger budgets it is customary to make this separation according to "Administration," "Operation," "Maintenance," and "Capital Outlay." The first three items are really expense charges and in Dayton a year's experience proved such divisions to be decidedly impractical. The two divisions suggested, however, are easily made if the following definitions are carried in mind:

*Expense* comprises all items of expenditure necessarily incurred for current administration, operation and maintenance of the several departments; those for which the General Fund is reimbursed; and those for materials and equipment

in the nature of renewals or replacements, which do not add to the capital assets of the corporation.

*Capital Outlay* comprises expenditure of every character made from the General Fund which increase the capital assets of the corporation.

4. *Classification by Objects Purchased:* After the larger separation of estimates and appropriations into "Expense" and "Capital Outlay," it is necessary to make a further classification by objects of expenditure under each, which will apply to all departments, and which will become a part of the accounting procedure of the municipality. If the budget making authority is to give relative weight to the needs of each of the appropriating units, these needs must be expressed in the same terms. This classification by the kind of thing to be purchased varies in each city, according to the personality of the budget makers, but in broad, general lines, remains practically the same in every instance. While the New York classification is usually followed, it has been modified in Dayton to more nearly meet the needs of a small city. By a further deviation the sub-classifications under supplies are based upon the character of supply itself rather than upon the use to which it is put.

The classification, however, should present no considerable difficulty to the average budget committee. The classifications used in Dayton, Cleveland, Cincinnati, Reading, or any one of a number of cities, will probably prove highly satisfactory. The chief requirements are that some classification be decided upon, that the definitions covering the same be prepared and sent to the departments prior to the preparation of the estimates, and that the finance department follow this classification in the distribution of public expenses, in order that the actual expenses may be made known at the end of any fiscal period.

The Dayton classification has been found satisfactory in a city spending a million and a quarter dollars for operating expenses, but the subdivisions should be fewer in number if used in a municipality with a budget of perhaps less than five hundred thousand dollars. A brief outline of the Dayton classification is given in the article on "Budget Procedure Under the City Manager Form of Government" by Mr. Arch M. Mandel in this volume.

5. *The Salary Schedule:* A further important feature in the preparation of the estimates is the presentation of a salary schedule carrying the number of employees of each class, with the rate of

pay, or in case of labor, the total number of hours at each rate, with the rate per hour, noting increases in each instance. This is more desirable than appropriating a lump sum of money to each city department for salaries, and later passing a salary ordinance which carries the rate of pay of each class of employee.

In connection with the statement of salaries and wages desired, it is of assistance to have a comparison with the condition of the current year. At the top of the estimate sheets may be printed a summary, as follows:

Request for salaries,  
Existing conditions,  
Net increase in salaries,  
Net decrease in salaries,  
Net added force,  
Net reduction in force,  
Net total increase,  
Net total decrease.

6. *Uniform Budget Stationery*: It is of no inconsiderable help, in fact it is almost necessary, that the departmental request be presented to the budget committee upon uniform stationery. Sometimes separate sheets are provided for each classification, but this is not necessary in small communities. It is sufficient if the uniform sheets, to be filled out by the departmental head, contain space for the

Code number of the proposed appropriation,  
Title and  
Rate of wage or price per unit,  
Number of employees or quantity of supplies, etc.,  
The number of days, or number of months,  
Total amount,  
Estimated balance at the end of the fiscal year,  
Expenditures for corresponding items for the current and last two fiscal years,  
Comparison of requests with expenditures for the current year, with increase or decrease,  
Estimated stock on hand—quantity, unit, value and amount,  
Allowance recommended by the budget committee,  
Tentative allowance by the finance committee before the city council,  
Final appropriation.

If such stationery is properly used by the departments, with the assistance of the accounting officers, it presents to the budget

makers necessary information for the preparation of a sound financial program. Each increase or decrease in requests is shown, and a decrease is measured, not over the appropriation of the current and previous years, but in comparison with the actual expenditures over these periods. The estimated balance at the end of the fiscal year shows the excess appropriation of the previous period. However, it is desirable that this balance should revert to the general treasury, rather than be made available for expenditure during the coming year by the department for which it was originally appropriated.

The budget committee now have before them in great detail the requests of the city departments. Here are the general work programs of each division, supported by the items of proposed expenditures. The budget committee can weigh the value of one activity as against another; eliminate one portion of an activity without injuring the remainder of the work; can definitely provide that certain activities shall not be followed, and that the whole strength of a division must be concentrated upon others. Salary increases are definite, and explanations can be asked for each. Additions to the force must be accounted for and justified. The departmental heads and their subordinates can be brought before the committee and asked to explain specific requests, specific increases, specific needs, and specific programs instead of generalities. Reductions in requests are much easier made when it is possible to effect the reduction of a dozen different items rather than of a grand total. For example, during 1914 it became necessary in the city of Dayton, owing to a shrinkage of revenue, to reduce appropriations by some \$40,000. Such a cut would have been considered impossible, or at least would have worked great hardship to the various departments, had the appropriations been made upon the lump sum or partial lump sum plan. As it was, the estimates were available, broken up into four or five hundred different items. The several administrative officers were brought before the city manager, and each item studied, the officer stating the minimum which he could receive and still operate his department successfully. As a result, in two days' time there was a \$40,000 reduction in the departments, which had reduced the activities of all without serious hardship to any.

7. *Appropriations vs. Estimates:* It is, of course, undesirable



that these estimates be passed as the budget itself, as such detail would unduly restrict administrative officers in their work. However, the extent to which administrators are tied down varies from city to city. It is usual to place in the budget the number of employees and their rate of pay, as well as the number of hours and rate of compensation for labor. Beyond this, the main estimate classifications are followed, as

Supplies and Material,  
Contractual Services,  
Fixed Charges, and  
Equipment.

In Dayton, where executive authority is concentrated, it has been found an advantage to place the sub-classifications under these more general divisions upon the appropriation ledger, but provision is made for alteration at the order of the city manager. Thus the manager has control of modifications in the plans of departments, while that department is not restricted to the exact detail expressed in the estimates. This scheme works well in Dayton, and probably would in any city manager municipality, but is not to be recommended for the average city.

8. *Appropriation Ordinance*: A further step to successful budget making is the drafting and passing of an appropriation ordinance which will make effective the proposals of the budget makers. While the particular wording of the ordinance must vary according to local legal requirements, there are certain provisions which should be made binding upon the administrative officers of the municipality. Among them are these:

1. Every contract for the purchase of materials, supplies and equipment should require the signature of the city comptroller before it is valid. The estimated amount which will eventually become payable should be entered against the appropriation or fund account for which it is an encumbrance, provided that account has an unencumbered balance. If the account is already fully encumbered, the contract may not be signed.

2. No expense should be incurred by any department, board, or any other officer unless an appropriation has been previously made covering such expense, nor shall liability be incurred during any fiscal period in excess of the sum appropriated.

3. The salary schedules which were part of the original esti-

mates should be attached to and become part of each appropriation for personal services. The number of positions and salaries payable for each are thus fixed, and may not be increased except by action of the legislative body. Some administrative officers are of the opinion, however, that only the salary or other rate should be binding, leaving the number of employees to the discretion of the officer. This is equivalent to granting a lump sum to the officer for salaries and wages with specification of the rate of pay. Dayton employs the former plan, with reasonable success.

4. If the sub-classifications under the main classifications in the estimates are included in the budget, transfer of money from sub-classification to sub-classification within the same group should be permitted upon the request of the administrative officer. To do otherwise, would throw needless red tape around the operation of his department. However, there should be an absolute prohibition of the transfer of money from any appropriation—*i.e.*, main budget classification—to another appropriation, without action of the legislative body. In larger municipalities, notably New York, there is a prohibition on the transfer of money from any appropriation for personal service to any appropriation for other than personal service, and *vice versa*. This check is to prevent a department needlessly increasing its salary or wage roll after the publicity attending the passage of the original budget has passed. Such a provision, however, is not necessary nor desirable in smaller communities.

5. Some appropriation ordinances carry the provision that no more than one-twelfth of the appropriation for salaries shall be spent in one month, nor more than one fifty-second of the appropriation for wages shall be spent in any one week. A glance at the pay roll growth which formerly prevailed in New York and elsewhere immediately before election time indicates the necessity of such a regulation in some instances. It is a feature, however, which is highly undesirable in smaller places. It is an unnecessary restriction upon public officers, and prevents seasonal variation in work programs. It would serve its purpose only in instances where the budget allotments were made up for three months at a time. This latter suggestion has been seriously advanced, but not yet utilized.

6. All books of account, warrants, orders, vouchers, or other official reference to any appropriation should indicate the appropria-

tion and fund involved or to be drawn upon by the proper code number; and provision should be made that the city auditor or comptroller should exercise a keen supervision to insure that such code numbers are properly designated. One of the most difficult features of budget making is to enforce the drawing against proper appropriations after the budget has been made. There is an earnest temptation for an administrator when one appropriation is exhausted, to endeavor to draw upon another appropriation for purposes for which it was not intended.

*9. Preliminary Publication:* Before the budget is considered by the finance committee of the city council, it should be made available to the public in preliminary hearings. It has been aptly said that democracy in government is not as necessarily correlated with methods of representation as with the information which the public has concerning the acts or failures to act of its representatives. Since the city budget outlines nearly all of the city's activities, there has in the past ten years been a marked tendency to popularize the preparation of the city spending program, and make it a more effective instrument for securing results.

Probably in small cities funds would not be available, nor would public interest be sufficiently great, to justify the publication of the entire budget estimate prior to the budget itself. The main outline of the budget estimate can be given to the public press with a statement from the budget committee, indicating the general work program for the coming year, with such modifications as they have thought necessary. In addition, should be presented (1) an estimate of the income by sources compared with the income of several years previous; (2) expenditures by objects purchased, showing the money which it is proposed to spend for salaries, wages, supplies and materials, contractual services, etc., compared with the years previous; (3) expenditures by the different organization units or functional units where it has been thought advisable to divide the organization into functions, and with this should be given the statement of expenditures for several periods past; (4) if the space is available, these last two tables should be compiled jointly, indicating the expenditure for objects purchased for each organization unit.

All or part of these summaries will be gladly carried by the public press, and can be put in typewritten form for presentation

to such organizations or individuals as might be interested. The Dayton charter requires that all of the preliminary estimates, as well as these summaries, should be on deposit with the city clerk several days prior to the public hearing. The cost of printing the summaries, however, is very small, and any group of public officers concerned with interesting the citizen body in the city activities could well afford to have this data published and distributed. If such a course is pursued, and an effort made to stimulate the taxpayer's interest in how the tax dollar is being spent, the public hearings which precede the passage of the document will in most cases be well attended, and profitable to citizen and official alike. The knowledge that a few hundred or a few thousand people care what the city is doing will urge the conscientious official to a higher endeavor, and require of the careless one a desirable minimum of effectiveness.

It is equally desirable that the budget as finally passed by the city council be in printed form, not only that public employees may have ready access to the authorization to incur liabilities, but also that citizens may secure a definite statement of the city's public program. In a small city, this cost of publication would be very small indeed, and it is hardly justifiable in any municipality that the most important accomplishment of its administrative officers and its legislative body should be hidden away in the records of the city clerk, and not presented forcefully to the public.

*10. Funds:* It is quite common in municipal government that the city revenues do not come into one fund but are segregated for some half a dozen different purposes—one or two departments drawing from each fund. In this case, the method of budget making need be no different from that which has already been outlined. Instead of one estimate of revenues there must be an estimate for each fund. Instead of one estimate of expenditures there must be an estimate for the several departments which draw from each fund. In other words, instead of one budget, the budget committee must make from three to six different budgets, keeping each separate. This makes the drafting of the summary statements somewhat difficult, and complicates the situation, but this complication is more apparent than real.

Such funds are normally a handicap rather than a help to better government, and frequently cities have seen fit to disregard

laws requiring such segregation. There is seldom any taxpayer or public officer who is sufficiently interested in such separation of expenditures to bring the matter to the attention of the courts.

*11. Additional Helps to Budget Making:* In some of the larger cities much more information is given to the budget committee than has been specified in the preceding paragraphs. Nothing has been mentioned in the foregoing which is not available to interested officers of any city in this country. Municipal accounting has not progressed to a point where the average municipality may secure an accurate balance sheet, although that would be of assistance in formulating the city's financial program for the coming year. It is also frequently suggested that a city should have available, in addition to the balance sheet, a statement of the operating revenues and expenses over a series of years, a surplus account, debt statement, and fund statement. In simpler words, the budget makers should know previous years' expenditures by department and classification; the unexpended balance at the end of the year; bills outstanding against such; and a statement of the city's assets and liabilities. The most necessary of these facts (the first two named) could be secured with due diligence, and the others (the last two named) are not absolutely necessary for a long step in advance in municipal budget making. The detail of these features as applied to smaller municipalities is described in the article on budget procedure by Mr. Mandel, previously referred to.

*12. The Allotment Scheme:* It has been advanced by some budget authorities that appropriations should not be made for each function separately, but for objects of expenditure. At certain periods of the year, perhaps quarterly, allotments of these appropriations should be made to the several functional or appropriation units within the municipality. Such allotment should be made by the body responsible for the presentation of the original estimate to the legislative body. It is maintained that such a system would permit the meeting of needs not foreseen at the beginning of the year, and would afford the flexibility which the segregated plan lacks. At the same time an adequate accounting and administrative control is secured. The proposal has been seriously considered for New York City, and was refused by the authorities in Springfield, Mass. In Dayton, as is possible in any city with centralized authority, most of the advantages outlined are secured through a

less formal budgetary control. The proposal will require empirical support before extended adoption may be considered, and most American cities have important preliminary steps yet to take.

*13. Bond Budgets:* Nothing has been said so far concerning bond budgets, as in the smaller municipalities it is in general unnecessary to consider this feature of city finance from a budgetary standpoint. However unwisely the permanent debt of municipalities has been incurred and liquidated, the fault will probably not be corrected through the budgetary medium. Only a small per cent of cities' operating income is expended for permanent improvements, and while it is desirable to make a division in the budget between operating expense and capital outlay, it would not be recommended that such capital outlay be carried by long term bonds. For example, in every municipality some work done on the streets, sewers, waterworks, fire alarm telegraph, etc., is of a permanent nature, and should be reflected on the city's general ledger as such. It would be foolhardy, however, that all such expenses be eliminated from the general operating expense to be taken care of by the sale of long term securities. Detail budgeting of bond issues has not come into use since such funds are usually spent by contract for specific purposes.

*14. Municipal Reports:* So far this article has dealt entirely with what may be called the debit side of city financing. There has been explained how in small municipalities city officers may be charged with a definite city program, and with the funds which the taxpayer has advanced for carrying out that program. Of equal importance are the methods by which the public officer becomes aware of the thoroughness with which his subordinates are carrying out the duties allotted to them; and the method by which such officer may report to the public the results of his stewardship. It is only by the developing and standardization of intra-departmental and departmental reports that such credit may be arrived at. Unfortunately, the development of such reports and accounts, particularly those dealing with unit costs have not proceeded to a point where they may play an important part either in budget making or in informing the public concerning the results of budget spending.

Municipal accounting and municipal reporting have not kept pace with budget making, and it is necessary to use the methods

outlined as an indispensable aid in effecting a more economical and effective use of the money resources of the municipality. The segregated budget is a necessary expedient until more perfect departmental administration is assured through the adoption and exercise of other methods.

Happily, these new methods are being rapidly introduced. The modern budget; modern accounting control over public funds; scientific purchasing of city supplies; time sheets and service records; cost accounting; adequate health records are not inherent to any type of government nor to any size of city; are not necessarily secured by a new charter; and may be established in any government if a sufficient number of citizens desire it.